CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 1, 2002

# H.R. 7
## CARE Act of 2002

*As reported by the Senate Committee on Finance on July 16, 2002*

## SUMMARY

H.R. 7 would provide several incentives for charitable giving by taxpayers and would require the disclosure of information relating to tax-exempt organizations. H.R. 7 also would increase funding for the Social Services Block Grant (SSBG) and increase the amount that could be transferred from the Temporary Assistance to Needy Families (TANF) program to SSBG. Finally, it would extend customs user fees through June 30, 2008.

The CBO and the Joint Committee on Taxation (JCT) estimate that enacting H.R. 7 would decrease governmental receipts by $150 million in 2002, by $3.7 billion over the 2002-2007 period, and by $5.3 billion over the 2002-2012 period. The act would increase direct spending by $345 million in 2003 and decrease such spending by $4.3 billion over the 2003-2007 period and by $5.7 billion over the 2003-2012 period. Since the act would affect direct spending and receipts, pay-as-you-go procedures would apply.

The act also would authorize the appropriation of $4 million in 2003 and $8 million over the 2003-2007 period for administering the expanded Individual Development Account (IDA) program. Assuming that those amounts are appropriated, CBO estimates that the resulting outlays would be about $7 million over the next five years.

CBO has reviewed title IV of H.R. 7 and has determined that it contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). That title would benefit states by increasing their ability to transfer TANF funds to SSBG and also by increasing funding for SSBG in 2003 and 2004. JCT has determined that the remaining provisions of the act contains no intergovernmental mandates as defined in UMRA, and would not affect the budgets of state, local, or tribal governments.

JCT has determined that the provisions relating to reportable transactions, tax shelters, inversion transactions, and reinsurance agreements contain private-sector mandates. CBO has determined that the extension of the customs user fees also is a private-sector mandate.

The total cost of complying with those mandates would exceed the threshold established by UMRA ($115 million in 2002, adjusted annually for inflation) in 2003 and thereafter.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 7 is shown in Table 1. All revenue estimates were provided by JCT except for the provision affecting Internal Revenue Service (IRS) user fees. The spending under H.R. 7 falls in budget functions 500 (education, training, employment, and social services), 600 (income security), and 750 (administration of justice).

## BASIS OF ESTIMATE

### Revenues

All estimates, with the exception of the provision affecting IRS user fees, were provided by JCT. A number of provisions would reduce revenues if enacted, and several would increase revenues (see Table 2). All together, the act's provisions would reduce revenues by $150 million in 2002, by about $3.7 billion over the 2002-2007 period, and by about $5.3 billion over the 2002-2012 period.

Most of the revenue reductions would occur from the provisions allowing a charitable contribution for taxpayers who do not itemize deductions, tax-free distributions from individual retirement accounts (IRAs) for charitable purposes, enhanced deductions for contributions of food inventories, and a 25 percent exclusion of capital gains taxes for sales of land or water for conservation purposes. Other provisions that would reduce revenues include adjusting the tax basis of certain stock for charitable contributions and providing a tax credit to eligible financial entities for matching contributions to IDAs made by certain low-income workers. These provisions together would reduce revenues by $192 million in 2002, by about $5.1 billion over the 2002-2007 period, and by about $9.1 billion over the 2002-2012 period.

The provisions relating to reportable transactions and tax shelters and those that would alter the treatment of inversion transactions would increase revenues by $42 million in 2002, by about $1.2 billion over the 2002-2007 period, and by about $3.6 billion over the 2002-2012 period.

**TABLE 1. ESTIMATED BUDGETARY IMPACT OF H.R. 7**

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| **CHANGES IN REVENUES** | | | | | | |
| Estimated Revenues | -150 | -1,331 | -1,356 | -274 | -290 | -291 |
| **CHANGES IN DIRECT SPENDING** | | | | | | |
| Increased SSBG Funding | | | | | | |
| Budget Authority | 0 | 275 | 1,100 | 0 | 0 | 0 |
| Estimated Outlays | 0 | 206 | 935 | 190 | 44 | 0 |
| TANF Effect of New SSBG Funding | | | | | | |
| Budget Authority | 0 | 0 | 0 | 0 | 0 | 0 |
| Estimated Outlays | 0 | -42 | -172 | 44 | 76 | 47 |
| Increased Transfer Authority from TANF To SSBG | | | | | | |
| Budget Authority | 0 | 0 | 0 | 0 | 0 | 0 |
| Estimated Outlays | 0 | 181 | 145 | 89 | -172 | -96 |
| Custom User Fees | | | | | | |
| Estimated Budget Authority | 0 | 0 | -1,274 | -1,425 | -1,496 | -1,571 |
| Estimated Outlays | 0 | 0 | -1,274 | -1,425 | -1,496 | -1,571 |
| Total Changes in Direct Spending | | | | | | |
| Estimated Budget Authority | 0 | 275 | -174 | -1,425 | -1,496 | -1,571 |
| Estimated Outlays | 0 | 345 | -366 | -1,102 | -1,548 | -1,620 |
| **CHANGES IN SPENDING SUBJECT TO APPROPRIATION** | | | | | | |
| Individual Development Accounts | | | | | | |
| Authorization Level | 0 | 4 | 1 | 1 | 1 | 1 |
| Estimated Outlays | 0 | 1 | 1 | 1 | 1 | 2 |

The act also would extend the period during which the IRS may charge fees on small businesses for providing ruling, opinion, and determination letters. Under current law, the IRS's authority to charge such fees will expire at the end of fiscal year 2003. The act would extend the authority to charge such fees until June 30, 2008. Based on the amount of fees collected in recent years and on information from the IRS, CBO estimates that extending the fees would increase governmental receipts by a total of $166 million over the 2004-2008 period. The provision would have no effect on receipts beyond 2008.

**TABLE 2. ESTIMATED REVENUE EFFECTS OF H.R. 7**

| | By Fiscal Year, in Millions of Dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| **Major Revenue Reducers** | | | | | | |
| Charitable Contribution Deduction for Non-itemizers | -185 | -1,247 | -1,131 | 0 | 0 | 0 |
| Tax-Free Distributions from IRAs for Charitable Purposes | 0 | -115 | -250 | -269 | -269 | -269 |
| Enhanced Deductions for Contributions to Food Inventories | 0 | -29 | -55 | -61 | -66 | -69 |
| 25 percent Exclusion of Capital Gains Taxes for Sales of Land or Water for Conservation Purposes | 0 | -2 | -18 | -50 | -76 | -80 |
| Tax Credit for IDA Program Expansion | 0 | 0 | -23 | -43 | -37 | -57 |
| Other Provisions | -7 | -78 | -111 | -136 | -158 | -167 |
| Subtotal | -192 | -1,471 | -1,588 | -559 | -605 | -642 |
| **Major Revenue Raisers** | | | | | | |
| Provision Relating to Reportable Transactions and Tax Shelters | 17 | 59 | 102 | 134 | 140 | 147 |
| Tax Treatment of Inversion Transactions | 25 | 81 | 97 | 117 | 140 | 168 |
| Extension of IRS User Fees Through 6/30/08 | 0 | 0 | 33 | 34 | 35 | 36 |
| Subtotal | 42 | 140 | 232 | 285 | 315 | 351 |
| **Net Effect on Revenues** | | | | | | |
| Estimated Revenues | -150 | -1,331 | -1,356 | -274 | -290 | -291 |

NOTE: Components may not sum to totals because of rounding.

## Direct Spending

**Social Services Block Grant.** Title IV would increase the funding level for SSBG in 2003 and 2004 and raise the percentage of the TANF grant that states could transfer to SSBG.

SSBG is permanently authorized at $1.7 billion annually. Title IV would increase funding for 2003 to $1.975 billion and for 2004 to $2.8 billion. Funding would return to $1.7 billion in 2005 and later. CBO estimates, based on current rates of spending, that implementing the provision would raise outlays by $206 million in 2003 and $1.375 billion over the 2003-2007 period. Title IV also would allow states to maintain the authority to transfer up to 10 percent of TANF funds to SSBG. That authority is scheduled to fall to 4.25 percent in 2003 and after. In recent years, states have transferred about $1 billion annually.

Those provisions would affect TANF spending in two ways. First, the additional SSBG spending would tend to reduce the need for TANF transfers to SSBG. CBO estimates that change would lower TANF spending by $214 million over the 2003-2004 period, but raise it over the 2005-2009 period. Second, maintaining the transfer authority at the higher level would make it easier for states to spend their TANF grants and would tend to accelerate spending relative to current law. (Based on recent state transfers, CBO expects that states would transfer an additional $600 million under the provision, but because some of this money would have been spent within the TANF program anyway, only $181 million of additional spending would occur in 2003.) The combined effect of the provisions would be to increase net TANF spending over the 2003-2007 period by $100 million, but lower it by $100 million over the 2008-2012 period. Thus, there would be no net impact on TANF spending over the 10-year period as a whole.

**Customs User Fees.** Under current law, customs user fees expire on September 30, 2003. This legislation would extend these fees through June 30, 2008. CBO estimates that enacting this provision would increase offsetting receipts (a credit against direct spending) by about $7.1 billion over the 2004-2008 period.

## Spending Subject to Appropriation

Title V would augment the existing Individual Development Account program by providing an IDA tax credit to qualified financial institutions for matching the IDA savings of low-income individuals. The effect of those tax credits on reducing federal revenues is estimated to total $159 million over the 2002-2007 period. The act also would authorize the appropriation of $2.5 million for a report on cost and outcomes of IDAs and $1 million in each year 2003 through 2010 for other administrative activities. Assuming appropriation of the authorized amounts, CBO estimates outlays of $1 million in 2003, $7 million over the 2003-2007 period, and $11 million over the eight-year period.

It is possible that expanding the IDA program could allow certain people with assets to participate in means-tested programs who would otherwise be ineligible, but CBO estimates that would have an insignificant effect (less than $500,000 a year) on federal spending. While there are limited data on current IDA participants, the available information indicates most participants would not deposit enough into their accounts to disqualify themselves from any federal means-tested program.

## PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in governmental receipts and direct spending that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects through 2006 are counted.

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Changes in receipts | -150 | -1,331 | -1,356 | -274 | -290 | -291 | -295 | -317 | -312 | -323 | -350 |
| Changes in outlays | 0 | 345 | -366 | -1,102 | -1,548 | -1,620 | -1,359 | -41 | 0 | 0 | 0 |

## ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has reviewed title IV of H.R. 7 and has determined that it contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act. That title would benefit states by increasing their ability to transfer TANF funds to the Social Services Block Grant and also by increasing funding for SSBG in 2003 and 2004.

JCT has determined that the remaining provisions of the act contain no intergovernmental mandates as defined in UMRA, and would not affect the budgets of state, local, or tribal governments.

## ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that the provisions relating to reportable transactions, tax shelters, inversion transactions, and reinsurance agreements contain private-sector mandates, and that the direct cost of complying with those mandates would exceed the threshold established by UMRA ($115 million in 2002, adjusted annually for inflation), in 2003 and thereafter.

CBO has determined that the extension of the customs user fees is also a private-sector mandate. We cannot determine the direct cost of this provision, however, because UMRA does not clearly specify how to calculate the cost associated with extending an existing mandate that has not yet expired. Under one interpretation, UMRA requires the direct cost to be measured relative to a case that assumes that the current mandate will not exist beyond its current expiration date. Under that interpretation, CBO estimates that the direct cost of the mandate would be about $1.3 billion in 2004 and larger in later years. Under the other interpretation, UMRA requires the direct cost to be measured relative to the mandate currently in effect. Under that interpretation, the direct cost of this provision would be zero.

## PREVIOUS CBO ESTIMATES

On July 11, 2001, CBO transmitted a cost estimate for H.R. 7, the Community Solutions Act of 2001, as ordered reported by the House Committee on the Judiciary on June 28, 2001. That version of H.R. 7 would reduce revenues by nearly $50 billion over the 2002-2006 period, whereas the Finance Committee's version has an estimated revenue loss of $3.4 billion over the same period. The major differences are the scope of the provisions affecting charitable contributions and a tax credit for individual development accounts.

On July 16, 2001, CBO transmitted a cost estimate for H.R. 7 as reported by the House Committee on Ways and Means. That version of the legislation incorporated a more limited but longer-lived provision on the deductibility of charitable contributions than that approved by the Finance Committee.

Neither of the House versions of H.R. 7 would have affected either SSBG or TANF spending.

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